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Answer-to-Question- _1_

REPORT - CORLINE PLC

TO: Lady Caroline Longly, Chair of Corline PLC

FROM: Garland & Moore LLP

DATE: 30 May 2025

SUBJECT: Group Transactions

INTRODUCTION

This report has been prepared in response to the letter received from Lady Caroline Longly to Alistair Bentwood dated 1 May 2025 and the Minutes of Corline Plc board Meeting held on 28 April 2025 and is based on the information contained in th eletter and the board meeting minutes.

This report has bene prepared solely fo rthe use of Corline Plc and its group companies. No responsibilitty is accepted for any reliance placed on the report by third parties.

The tax law contained in this report applies at the time of writing. Should there be any delays in carrying the proposed transactions then further advice should be sought to ensure that thewre have been no changes to the advice given.

Corline Plc are proposing to undertake a number of projects which need funding. such as the following:

1. - Conversion of UK Facotry
2. - Conversion of French Factory
3. - Acquisition of Batteries Nord Srl
4. - Payment of tax and penalties in Sealand

This report will review and examine the corporation tax implications associated with the above projects and provide recommendations on how best fund them to achieve the most tax efficient outcome.

EXECUTIVE SUMMARY

Acquisition of Batteries Nord Sarl

The acquisition of the business BNS can be done either as a share acquisition or an acquisition of a trade and assets. the ammount paid of £1000m will be the basecost of the shares on future sale however it is likely that the SSE will apply.

As the company will become a group memeber transfer pricing rules wiull need to be considered on the supply of batteries to make sure that the transactions are at arms length.

As it is not a UK company there will be no stamp duty or VAT implciations on either option.

Acquisition of the shares will involve BNS joining the world wide group of CP and will contribution to the tax EBITDA of the wworld wide group for CIR purposes.

It will become an addtion CFC as with CU, CF and CS as the corproation tax rate is the same as the UK the tax exemption will not apply. the exempt period will period

exemption will apply for only for a year. As it will be supplying the UK with with batteries there is a risk that it would fall under the Profits attributed to uK activities gateway but as it is iits own business this is a low risk and should not apply.

Alternativel the acquisition of the trade and assets would not as simple CP would need to determien which entity would acquire the assets if it is acquired by a UK company then there would be formed an overseas PE as the trading is carried out in Beligum and would be double taxed, the same would be if it was held by one of the exisiting overseas companies therefore to avoid double taxation a new company would need to be set up in Beligum

Coverision of UK and French Factories

For the UK factory structures and buildings allowances can be claimed in a total of £9m this is an apportioned amount as the facotry will not be available for the whole year a structures and buiilding allowance statement will need to be completed.

For the french facotry it is advised that local advice is sought to see if there are any similar allowances that can be claimed. Please let us know if this is something you owuld like to do and we will be able to put you in touch with our french colleagues.

Funding Solutions

Based on the two options available should offer from the Hunter family be accepted this will be an equity injection and it would be crucial to ensure that the articles of association allow for the issuance for voting participation preference shares. the annual dividends that would be paid would be £165m of which no deduction would be allowed as these are paint to individials who are non uk tax resdient there would be withholding tax of 20%

paid the dividends which would be £33m

However should the debt option be chosen then CP would have interest expenses of £210m in total with £126m going to the bank and £84 going to the hunter family which is a potential saving of tax of £52.5m. These expenses would be deductible but the amount deductible would be restricted by CIR regime and assuming that CP is not already within the regime based on the UK group alone as world wide group figures are not available the full amount of interest is deductible but once the world wide group interest expenses are taken into consideration it is likely that there will be a higher restriction. In addition as interest will be paid to non UK tax resident individual withholding tax on interest paid to the Hunter family will apply at 20% and this will add further administrative burdens on CP as they will have to file additional CT61 returns on a quarterly basis.

Other matters

CP will be the company receiving the cash injection but CS will need part of the funding in which to pay the taxes and penalties. A further loan can be made to them which will offset the interest payments made by CP.

Alternatively a share subscription can be made which will increase the amount of dividend paid by CS to CP as there is no withholding tax on dividends.

Also it is noted that carried forward losses are not being allocated to CCUK on even within the corporate loss restriction another £145m can be allocated which would save £36.35 of tax as it is more efficient to save tax sooner rather than in later period as rates are unforeseen.

RECOMMENDATIONS

It is recommended that the debt funding route is taken as even though there will be possible restrictions on the deductibility of interest, the interest can at least be reactivated in future periods when there is capacity for it, there is no deduction for dividend payments and this will be loss of relief. It may also not be in the board interest to give a significant amount of control to the Hunter family

It is also recommended that you write to HMRC for ATCPP as the interest expenses could be excessive and confirmation will ensure that no interest is restricted under the thin capitalisation rules.

It is recommended that following the completion of a due diligence report and it is confirmed that there are no issues then the shares in BNS should be acquired as opposed to the trade and assets as it is a profitable company and will continue to do so and will therefore increase the World wide group tax EBITDA for CIR purposes. Warranties and indemnities would need to be included in the sales and purchase agreement. Alternatively if there are issues found or generally the board is adverse to acquiring a company with a history then the trade and assets should be acquired but in a brand new Belgium incorporated company to avoid any double taxation with any of the existing trading companies.

It is recommended that the structures and building allowances are claimed on the UK factory as this will be available once the factory is ready for use. as this will be an additional £9m to offset against profits

It is recommended that to fund CS with the money required to fulfil its tax and penalty

obligations that a loan is made to them on an arms length basis so that the interest receipts can be offset.

It is also recommended that £145m of carried forward losses are surrendered to CCUK to save £36.25m of tax in the year 31 December 2024 as apposed to allocating it over the next 10 years.

It is also recommend that local tax advice is sought on the acquisition of BNS as well legal advice on the UK side to to make

General comments

It is not anticipated that HMRC will raise any objections to above recommendations. Corline Plc is at liberty to choose how it conducts its business affairs. The recommendations do not involve anything that may be regarded as tax aggressive planning. It is not open to HMRC to argue that the above transactions be undertaken in a different way to increase the amount of tax payable. There are also no specific anti-avoidance rules that HMRC could invoke to negate the effect of the transactions.

SECTION A - ACQUISITION OF NORD SRL

Corline Plc (CP) is looking to make an acquisition of the business of Batteries Nord Srl (BNS), this section will look at whether the shares should be acquired or wthehr the trade and assets will be acquired.

A1 - Acqusiiton of the shares

Base cost and SSE

Should the shares be acquired in BNS then the amount paid of the shares of £1000m will be the base cost of the shares for future sale. However provided the conditions are met the substantial share holding exemption (SSE) should apply. As of now apart from the ownership condition (where 10% of the shares need to be held for 12 months by transferring company) the trading condition (where the transferee company must be a trading company or a holding company of a trading group or sub group for the 12 months through the period before sale) is met by BNS how this can be discussed when the timing becomes more relevant.

Associated company

Following the acquisition BNS would become part of the CP which would become an associated company for the purposes of quarterly installment payments (of which the CP group is already subject to).

The chargeable accounting period will not experience any break in trading

CIR implications

It would also become part of the world wide group for corporate interest restriction purposes so if it has any liabilities and incurs interest expenses this would be included in the calculation for any restriction of UK interest.

CFC implications

It company would also become a controlled foreign company (CFC) which if the CFC

rules apply the appprofits from the company would be attributed to CP and chargeable under UK corproation tax where none of the exemptions apply and the profits fall into one of the gateways.

The exmeptions are:

1. - The exempt period exemption - *companies are given a year to get their tax affairs in order so the CFC rule sdo not apply*
2. - the tax emption - *this exemption applys where tax rate is at least 75% of the UK CT rate*
3. - the excluded territories - *a list of territories which exclude the rules*
4. - the low profit exemption - *where the profits ar enotmore than £500000 (and trading finance profits are not more than £50000)*
5. - the low profit margin exemption - *where the profits are not more than 10% of the expenses*

Other than the tax exmption and exempt period where CP would be given a year in which to make arrangements so that BNS is not a CFC none of the other Exemptions would apply.

The Gateway are:

- A. Profits attributed to UK activities
- B. Trading financ eprofits
- C. Non trading finance profits
- D. Capitive insurance
- E. Solo consolidation

Only gate way A would apply as the profits will be from supplying batteries to the UK however because BNS operates its own trade and non of the assets or risks would be managed from the uK it is unlikely that the this will apply.

also as the Corporation tax (CT) rate in Beligum is the same as the UK the UK would receive a credit for the tax paid.

W&I

finally there should be warranties for any undisclosed liabilities or indemneities for promise sto pay any liabilities included inthe sale and purchase aggrement as CP will be buying a company with ha history.

A2 - Acquisition of trade and assets

We have not been provided with any information on the what assets BNS has within inits business but the acqusition of the trade and assets will be a clean transactions as the company history will not follow with the assets or trade.

The chargeable accounting period for BNS will cease and it will commence for the company which acquires the trade.

CP will have the option to either acquire the trade and assets through either the of the UK companies or one of the non uk companies. This will alter the tax resident of companies whether in UK, France, US or Sealand as the BNS bsuiness is operated in the Belgium as such if any one of exisiting companies acquires the trade and assets and continues to operate the business as it is there will be a double taxation applied in territory of the company which acquires the trade and asset and in belgium.

If it is in the any of the UK companies ther eis a double tax treaty between the UK- belgium and there is a double tax releif that can be claimed to give a credit for any foreign tax paid. local tax advice will need to be sought for any of the overseas companies.

However as it is not the intention for CP to alter or move the tax residence of any of the companies or their businesses it is recommended that a new overseas company be incorporated in belgium should it be decided to acquire the trade and assets.

A3 - Other taxes

VAT

As BNS is a overseas company there will be no VAT on the acqusition of shares as they are outside the scope of vAT even in the UK and there will be no VAT on the assets which are no located in the UK.

Stamp duty

there is no stamp duty on the acquisiiton of non uk shares and no stamp duty on the acquisition of land buildings not located in the UK.

Conclusion

to conclude it is recommended that the shares are acquire as apposed to the trade and assets provided there are no issued within the due diligence that is must be done and warranties and indemnities are provided as there will be the possibility to cleam SSE on

the sale of the shares at a future date where as there will be chargeable gains should the sale of the trade and assets be required.

SECTION B - CONVERSION OF UK AND FRENCH FACTORTIES

It is understood that both the UK and the french factories need to convetered to accommodate the manufacturing of electric cars. this section will examine the tax implications.

B1 - Conversion of the UK factory

Conversion of the UK facotry ny Corline Cars (No2) Ltds (CCN2) will involve capital expenditure of £400m as this will be altering the facotry structures and buildings allowances (SBA) will be available to be claimed as this conversion is taking place following 18 November 2019.

SBAs are claimed at 3% on a stright linebasis over a period of 33.3 years which on £400m give writing down allowance of £12m per year.

As per the information provided this conversion is to take place in september 2026 and will be be 6 months in duriation which will finish around March 2026.

All CP companies have a 31 Decmeber year ended as as the factory wont be finished till March it is estimated that first use will not be till april giving around 9 months of use in 2026 that means that the £12m writing down allowance will need to be apportioned for 9 months as it wont be used through out the year so the total writing down allowance for 2026 will be £9m which is a £2.25m tax tax saving and will be £12m at a tax saving of

£3m for the next 32.3 years.

B2 - Conversion of the French factory

As the expenditure for this factory is presumed to be incurred by Corline (French) Sarl (CF) there will be no UK relief available as this is also on a property outside the UK, however advice should be sought from local advisors to see if there is an equivalent relief.

Please let us know should you require us to put you in touch with our French colleagues.

SECTION C - FUNDING SOLUTIONS

CP is looking to obtain funds either by way of equity from the Hunter family or by way of debt which will be a mix of external debt from a bank or debt from within the Hunter family. This section will discuss the tax implications.

C1 - Equity funding

Michael Hunter and his family will be willing to invest £3000m into CP to fulfil their spending requirements in exchange for 210 Vote participating preference £1 shares. This would give the Hunter family 50% voting rights and make Michael Hunter a majority shareholder as he already has less than 5% of the share capital. There are initially 200 £1 shares in issue but following this equity injection there would be 410 shares. Before this offer could be accepted the articles of association would need to be checked to ensure that Vote participating preference shares are permitted.

the remaining shareholders would need to be comfortable giving away majority ownership to Michael Hunter and his family.

Additionally should this offer be accepted then CP would be required to pay £165m in dividends, which is 5.5% of £3000 as per appendix 1. CP would not get a deduction for any of the dividends under UK CT as they are exempt and as they would be paid to non-resident individuals there would be Withholding tax paid on the total 20%

Where profits are above £1bn further dividends would be required provided there are enough distributable reserves otherwise the dividends would be unlawful.

C2 - Debt funding

Funding by way of debt would be received for UK banks up to the amount of £1800m at 7% which would incur £126m of interest expenses and a further £1200m from the Hunter family again with £84m interest expenses reaching a total amount of £210m.

Now it is understood based on the information provided that CP already has high liabilities of £3060m so it is likely that they are already within the corporate interest restriction regime on interest payments as the de minimus is only £2m.

In the absence of figures and on the assumption that they are not yet subject to a disallowance of interest. based on information provided there are total profits before tax of £882m and if we assume this is the same as the tax EBITDA for the UK group using the fixed ratio approach they have an interest capacity of £264m which should allow all the interest to be deductible but this calculation does not take into consideration the aggregate net interest expenses of the group which are likely to reduce the interest capacity

significantly.

However disallowed interest can be reactivated in future years where the interest capacity increases so this is a better alternative to equity funding as the group is already profitable.

As the rate provided by the bank is presumable Arms length there should be no further transfer pricing implications however the thin capitalisation rules should be considered and it may be worth writing to HMRC and requesting a Advanced thin capitalisation payment plan (ATCPP) to ensure that any interest is deductible before CIR rules are applied

Other obligations

The fundign received from Michael and his family will be subjection to additional administrative burdens as they a non uk tax resident the interest paid to them will be subject to 20% withholding tax and as such CP will be required to accounting income tax by submitted CT61 quertley reutrnr which would be due every quarter 14 days after the end of the calendar quarter dates (April, July, October and January).

Conclusion

To conclude even though debt funding will be subjection to CIR, TP rule and and maybe thin capitalisation rules there is the possibility that CIR interest which is disallowed could be reactivated where with the dividends they are always going to non deductible and it is unlikely that all of the board are going to be comfortable giving majority of voting power to Michael and his family therefore it is recommended that the funding chosen should be by way of debt.

SECTION D - OTHER MATTERS

D1 - Payment to Corline Sealnd Ltd

It is understood that Carline Sealand Ltd (CS) is require make £1200m of taxes and penalties so the funding that is required will be received by CP and will need to be paid to CS. As such this can either be done as a subscription of more shares in CS or as debt to CS.

share subscription

the sahre subcription would be funding in the form of equity and would increase the base cost of the shares in CS in the hands of CP and Cs would be able to make dividend payments to CP on which no withholding tax is due. The dividends would be non taxable in the uk as they would fall under one of the exmeptions of being a controlled company.

Intrernal Debt

alternatively CP could make a loan to CS for £1200m which would be at an arms length of 7% which would incur interest payments being made to CP of £84m this would offset the interest being paid to the banks and to the Hunter family and reduce the overall aggregate net interest of the company however local advic ewould need to be sought for the impact on interest payments in seland.

Therefore it is recommended that payment is made to CS by way of debt so that they can make interst payemts to CS.

D2 - Use of Carried forward losses

It is noted that the loss planning strategy does not include any relief to Corline Cars UK Ltd (CCUK) to their taxable profits of £290m and only to CCN2 of 317.5m which presumably includes the £5 million deductions allowance.

It should be noted that at least £145m of losses can be group relieved to CCUUK which would be a current year saving of £36.25m of corporation tax and the remaining £655 could be utilised over the next 10 years at £65.5m. It is prudent to ensure that losses are relieved sooner rather than in later periods as rates to CT are unforeseen.

Therefore it is recommended losses are utilised in 2024 as this is the best and most efficient approach.

APPENDICES

Appendix 1 - Dividends calculation to the hunter family

£3000m @ 5.5% = £165m of dividends

Appendix 2 - Nord Srl profits

£100m @ 25% = 25000000

Note 1 - should the profits of Nord srl be allocated to UK tax through CFC rules

Appendix 3 - conversion of UK facotry

$$£400m @ 3\% = 12000000 \times 9/12 = £9000000$$

Appendix 4 - interest on borrowings

$$1800m @ 7\% = 126m$$

$$1200m @ 7\% = 84m$$

$$210m$$

Appenx 5 - UK EBITDA

$$\text{Corline Cars UK Limited} = 290 + 20 = 310$$

$$\text{Corline Cars (No2) ltd} = 30$$

$$\text{corline plc} = 542$$

$$\text{total tax ebitda} = 882$$

$$£882 @ 30\% = 264m$$

Based on UK EBITDA the interest capacity is £264m

TOTal EBIT